

Message Text

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PAGE 01 CAIRO 14192 031027Z
ACTION NEA-11

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
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C O N F I D E N T I A L CAIRO 14192

E.O. 11652: GDS
TAGS: EGIN EG PINT
SUBJECT: POLITICAL IMPLICATIONS OF PYRAMIDS PLATEAU
- CANCELLATION AND TAX BILL VETO

REF: CAIRO 13867 (NOTAL)

SUMMARY: SADAT'S CANCELLATION OF PYRAMIDS PLATEAU PROJECT
AND TAX BILL VETO ARE TACTICAL POLITICAL MOVES AIMED AT
DOMESTIC EGYPTIAN AUDIENCE. PYRAMIDS PROJECT HAD BEEN
STRONGLY UNDER ATTACK FOR ALLEGED CORRUPTION IN HIGH
PLACES. CANCELLATION ON ARCHAEOLOGICAL AND ECOLOGICAL
GROUNDS ALLOWS GOE SIDESTEP CORRUPTION QUESTIONS.

ON TAX BILL, PRESIDENT REPEATEDLY TOLD ASSEMBLY TO USE
THIS AS VEHICLE TO EFFECT SOCIAL REFORM AND ELIMINATE
TAX EVASION. SADAT PUBLICLY ADMITTED INEQUITIES HAVE
RESULTED FROM OPEN DOOR POLICY AND INSTRUCTED PARLIA-
MENT RECTIFY THIS. IMMEDIATE IMPACT OF VETO WILL BE
POSITIVE BUT WILL DISSIPATE IF PARLIAMENT FAILS ACT
QUICKLY. IN VIEW OTHER BUSINESS ON DOCKET, AND IMPENDING
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PAGE 02 CAIRO 14192 031027Z

SUMMER RECESS (JUNE 30), IT UNLIKELY ASSEMBLY WILL MOVE ON
NEW TAX LEGISLATION FAST ENOUGH TO STILL PRESIDENT'S
CRITICS. END SUMMARY.

1. PYRAMIDS PLATEAU. PYRAMIDS PLATEAU PROJECT HAD COME
UNDER STRONG DOMESTIC CRITICISM, FROM LEFT AND RIGHT,
ON GROUNDS OF ALLEGED CORRUPTION. CRITICS HAD NOTED

INVOLVEMENT OF MANY CLOSE TO SADAT: HIS BROTHER AND NEPHEW WERE CONNECTED WITH LAND DEVELOPMENT FIRM: OSMAN AHMED OSMAN WAS PROJECT'S PRIME CONMTRACTOR; WHILE JIHAN SADAT WAS RUMORED TO HAVE RECEIVED ACREAGE WITHIN DEVELOPMENT AREA GRATIS. INSINUATIONS PROBABLY WERE ONE OF CAUSES FOR CRACKDOWN ON AL AHALI. BYCANCELLING PROJECT, SADAT ABLE PORTRAY HIMSELF AS PLACING NATIONAL ABOVE PRIVATE INTERESTS. BASING DECISION ON ARCHAEOLOGICAL AND ECOLOGICAL GROUNDS, ALLOWS PRESIDENT TO SIDE-STEP ISSUE OF ALLEGED CORRUPTION.

2. VETO OF TAX BILL, TOO, AFFORDS PRESIDENT OPPORTUNITY TO DEMONSTRATE HIS CONCERN FOR "SOCIAL JUSTICE". IN RETURNING BILL TO PARLIAMENT, SADAT DWELT HEAVILY ON NEED FOR SOCIAL EQUITY, ARGUING THAT TAX MEASURE MUST RESULT IN JUST DISTRIBUTION OF BRUDENS, TAKING INTO CONSIDERATION RELATIVE WEALTH OF CITIZENS. PA BILL AS PASSED DID NOT CLOSE ALL LOOPHOLES NOR DID IT ADDRESS HARD QUESTIONS OF TAXATION ON AGRICULTURAL OR PROFESSIONAL INCOME. BOTH MINISTER OF FINANCE AND SADAT PREVIOUSLY WARNED PA AGAINST BEING TOO LIENIENT. BILL'S MAJOR PLUS WAS INCREASED EXEMPTIONS FOR LOWER INCOME BRACKETS. SADAT, FURTHER, ARGUED THAT BILL SOULD LIMIT ACCUMULATION OF WEALTH BY TAXING "UNEARNED" INCOME. LUXURY GOODS SHOULD BE TAXED AT HIGHER RATE; TAXES ON ESSENTIAL COMMODITIES

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PAGE 03 CAIRO 14192 031027Z

REDUCED OR ELIMINATED. PRESIDENT WAS PARTICULARLY CRITICAL OF TAX EXEMPTIONS FOR EGYPTIANS AND (FOREIGNERS) WORKING ON INDUSTRIALIZATION PROJECTS AND FALLING WITHIN FIVE YEAR PLAN. HE URGED SUCH EXEMPTIONS BE RECONSIDERED. ACCORDING SADAT TAX EVASION IS TATAMOUNT TO NATIONAL TREASON.

3. COMMENT: PRESIDENT MADE MANY OF ABOVE POINTS ON TAX REFORM PREVIOUSLY, BUT MEMBERS OF PARLIAMENT, MANY OF WHOM HAVE VESTED INTEREST IN PROTECTING OWN AGRICULTURAL EARNINGS, RESISTED THEM. THIS PARTICULARLY TRUE OF CENTER PARTY PARLIAMENTARIANS. SADAT'S VETO APPARENTLY DESIGNED AS MESSAGE PRESIDENT EXPECTS PARLIAMENT TO LISTEN MORE CLOSELY IN FUTURE.

4. SADAT'S DIRECT CONFRONTATION OF NEW-MILLIONAIRES QUESTION WILL BE POPULAR. LEFT AND WARD HAVE FOCUSED ON UNEQUAL DISTRIBUTION OF PROCEEDS RESULTING FROM OPEN DOOR POLICY. SADAT ADMITTED THERE SOME JUSTIFICATION FOR COMPLAINT.

5. POSITIVE IMPACT, HOWEVER, WILL BE LIMITED UNLESS

PEOPLES ASSEMBLY TAKES RAPID ACTION EFFECT REFORMS
REQUESTED ESPECIALLY WITH REGARD TO INCREASED EX-
EMPTION FOR POOR. IN VIEW OF CROWDED PARLIAMENTARY
CALENDAR (NOW DOMINATED BY NEED TO PASS LEGISLATION
IMPLEMENTING REFERENDUM, AND UPCOMING SUMMER RECESS
(JUNE 300 IT UNLIKELY ASSEMBLY WILL BE ABLE TO(OR
WANT TO) ADDRESS FURTHER REFORM BEFORE FALL. MATTHEWS

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Message Attributes

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